

## GDP Revisited:

### The Spending Components

## Tallying Up GDP:

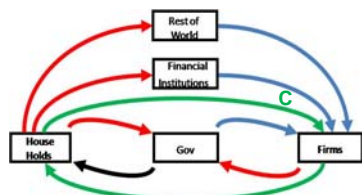
- “Dollar Value of All Final Goods & Services”

$$\text{GDP} = P_1 \cdot Q_1 + P_2 \cdot Q_2 + P_3 \cdot Q_3 +$$

- **Total Spending:**  $Y = C + I + G + NX$ 
  - GDP ( $Y$ ) is the Sum of:
    - Consumption ( $C$ )
    - Investment ( $I$ )
    - Government Purchases ( $G$ )
    - Net Exports ( $NX$ )

## The 1st Spending Component of GDP:

- **Consumption ( $C$ ):**
  - Spending by Households on Goods & Services
  - An Exception: New Housing Purchases



### The 2nd Spending Component of GDP:

- **Investment (I):**

- Spending on Capital Equipment & Inventories
- Also Includes Structures (Plants & New Housing)




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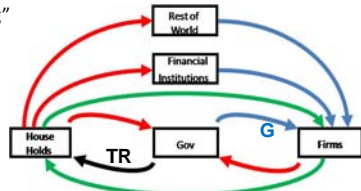
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### The 3rd Spending Component of GDP:

- **Government Purchases (G):**

- Spending on Goods & Services by Local, State, & Federal Governments
- Transfer Payments *Not* Included
  - No Exchange for Currently Produced Goods/Services
  - Not “Spending”




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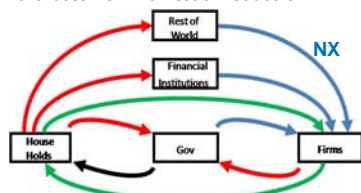
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### The 4th Spending Component of GDP:

- **Net Exports (NX):**

- Exports minus Imports
- Net of:
  - Domestic Purchases Abroad Minus
  - Rest of World Purchases from Domestic Producers




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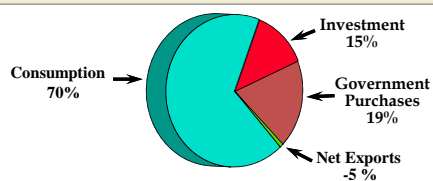
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## U.S. GDP: Magnitude (2007)

	Total (in billions of dollars)	Per Person (in dollars)	Percent of Total
Gross domestic product, Y	\$13,843	\$45,838	100%
Consumption, C	9,732	32,225	70
Investment, I	2,132	7,061	15
Government purchases, G	2,691	8,912	19
Net exports, NX	-712	-2,360	-5

Source: U.S. Department of Commerce. Parts may not sum to totals due to rounding.



$$\text{GDP: } Y = C + I + G + NX$$

- Measuring/Tracking the Spending Flows

